United States General Accounting Office

GAO

Report to the Secretary of Energy

June 2001

DEPARTMENT OF ENERGY

Opportunities Exist to Improve Los Alamos' Equipment Purchasing Practices

GAO-01-426

Form SF298 Citation Data

Report Date *("DD MON YYYY")* 00JUN2001	**Report Type** N/A	**Dates Covered (from... to)** *("DD MON YYYY")*

Title and Subtitle DEPARTMENT OF ENERGY: Opportunities Exist to Improve Los Alamos' Equipment Purchasing Practices	**Contract or Grant Number**
	Program Element Number
Authors	**Project Number**
	Task Number
	Work Unit Number
Performing Organization Name(s) and Address(es) U.S. General Accounting Office P.O. Box 37050 Washington, DC 20013	**Performing Organization Number(s)** GAO-01-426
Sponsoring/Monitoring Agency Name(s) and Address(es)	**Monitoring Agency Acronym**
	Monitoring Agency Report Number(s)
Distribution/Availability Statement Approved for public release, distribution unlimited	
Supplementary Notes	

Abstract
In fiscal year 2000, the Department of Energy (DOE) received $13.2 million in supplemental funding to replace equipment lost in the May 2000 Cerro Grande fire that damaged the Los Alamos National Laboratory. Because of congressional concerns about whether these funds would be spent in the most economical fashion, we reviewed the practices used by the contractor that operates the laboratorythe University of Californiato make the replacement purchases. In late 2000, we briefed congressional staff on the need for, and scope of, supplemental funding at the laboratory. In the course of our work since then, however, we noted several opportunities for Los Alamos to improve its purchasing of computers, printers, and digital cameras that we wanted to bring to your attention. While the laboratory spent about $350,000 on such items as a result of the fire, it spends millions of dollars annually on similar purchases. This report discusses how the contractor can improve its purchasing practices by (1) expanding possible supply sources for equipment purchases, (2) establishing mandatory performance standards for equipment purchases, and (3) standardizing the brands and models of computer and computer-related equipment the laboratory uses. To identify these opportunities, we reviewed the purchases of 17 replacement items: computers, printers, and digital cameras. For each item, we requested information from Los Alamos contracting officials on performance specifications, procurement source, and price paid. We independently attempted to determine if each item could have been procured at a lower price, met existing laboratory performance standards, and adhered to any laboratory-imposed limit on purchasing various brands and models of the same equipment. In addition, we reviewed in detail one DOE report on computer acquisitions at the Departments Idaho National Engineering and

Subject Terms

Document Classification unclassified	**Classification of SF298** unclassified
Classification of Abstract unclassified	**Limitation of Abstract** unlimited
Number of Pages 21	

Contents

Abbreviations

DOE	Department of Energy
GSA	General Services Administration

GAO
Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

June 4, 2001

The Honorable Spencer Abraham
The Secretary of Energy

Dear Mr. Secretary:

In fiscal year 2000, the Department of Energy (DOE) received $13.2 million in supplemental funding to replace equipment lost in the May 2000 Cerro Grande fire that damaged the Los Alamos National Laboratory. Because of congressional concerns about whether these funds would be spent in the most economical fashion, we reviewed the practices used by the contractor that operates the laboratory—the University of California—to make the replacement purchases. In late 2000, we briefed congressional staff on the need for, and scope of, supplemental funding at the laboratory. In the course of our work since then, however, we noted several opportunities for Los Alamos to improve its purchasing of computers, printers, and digital cameras that we wanted to bring to your attention. While the laboratory spent about $350,000 on such items as a result of the fire, it spends millions of dollars annually on similar purchases.

This report discusses how the contractor can improve its purchasing practices by (1) expanding possible supply sources for equipment purchases, (2) establishing mandatory performance standards for equipment purchases, and (3) standardizing the brands and models of computer and computer-related equipment the laboratory uses. To identify these opportunities, we reviewed the purchases of 17 replacement items: computers, printers, and digital cameras. For each item, we requested information from Los Alamos contracting officials on performance specifications, procurement source, and price paid. We independently attempted to determine if each item could have been procured at a lower price, met existing laboratory performance standards, and adhered to any laboratory-imposed limit on purchasing various brands and models of the same equipment. In addition, we reviewed in detail one DOE report on computer acquisitions at the Department's Idaho National Engineering and

Environmental Laboratory.[1] (See app. II for details of our scope and methodology.)

Results in Brief

Opportunities exist for the Los Alamos contractor to save money by modifying its purchasing practices in three areas. First, the contractor could expand its use of supply sources. About 25 percent could have been saved on certain items if the laboratory had used the General Services Administration (GSA) or additional suppliers that advertise over the Internet. In response to our review, Los Alamos officials said they would give greater consideration to using GSA for future equipment purchases.

Second, the contractor could establish mandatory maximum performance standards, such as defining the size of the hard drive, for computer purchases. Los Alamos has established voluntary minimum performance standards for its computer purchases, but no maximum standards. All computers we reviewed had performance capabilities that exceeded Los Alamos' minimum standards. Because Los Alamos does not require that such purchases be formally reviewed, we could not determine if the higher cost Los Alamos paid for computers with enhanced capabilities was justified. In contrast, the contractor at DOE's Idaho National Engineering and Environmental Laboratory requires that all purchases of computers that exceed its mandatory performance standards be formally reviewed by management.

Third, the contractor could benefit by increasing its use of a standard brand of computer and computer-related equipment. In general, Los Alamos does not limit the variety of brands and models of equipment that are purchased. As a result, the contractor may not be taking full advantage of discounts associated with making multiple purchases of the same item. In addition, purchasing different brands and models of equipment means that prices can vary. For example, one desktop computer brand we reviewed cost about $2,900, while another brand with enhanced capabilities cost about $2,600. According to officials at Los Alamos, its employees were using different brands and models of equipment before the fire, and the items purchased were intended to be nearly identical replacements for the ones that had been destroyed. Los Alamos officials

[1]DOE, Office of Inspector General, *Audit of Desktop Computer Acquisitions at the Idaho National Engineering and Environmental Laboratory*, WR-B-97-07 (Albuquerque, New Mexico: DOE, Aug. 25, 1997).

also told us that uniformity of computer type and brand across the more than 40 organizations at the laboratory would not meet the needs of the diverse applications and functions involved in experimental work. However, two Los Alamos divisions—Business Operations and Facility and Waste Operations—have begun using a standard brand of computer, and it has dramatically reduced support costs. Los Alamos has not formally evaluated the feasibility of adopting this approach for more of its organizations.

We are making several recommendations to improve the way Los Alamos purchases equipment. DOE reviewed a draft of this report and generally agreed with its recommendations.

Background

The Los Alamos National Laboratory, located in New Mexico, is charged with enhancing the security of nuclear weapons and nuclear materials worldwide. On Thursday, May 4, 2000, Bandelier National Monument workers in the Cerro Grande Mountain area set fire to a portion of the monument's land to thin uncontrolled forest growth. The fire rapidly grew out of control, and during the 2-week period that followed, over 47,000 acres of national forest, county, pueblo, and laboratory land burned. The laboratory later reported that 8,000 acres of its land had been damaged, 39 structures had been destroyed, and almost $130 million in fire-related costs had been incurred. The laboratory was officially closed from May 8 until May 22 but, according to Los Alamos officials, remained in a state of emergency because of damage caused by the fire and the threat of flooding until August 2000.

After the fire, the laboratory's Cerro Grande Rehabilitation Project office contacted divisions that had lost equipment in the fire and required that they submit detailed lists of their losses to obtain the release of fire recovery funds from DOE. Seven divisions indicated that they needed a total of $13.2 million in fiscal year 2000 and $15 million in subsequent years to recover from the fire.[2] Each division provided information on the equipment that had been damaged or destroyed by the fire, the estimated cost of replacement equipment, and the actual cost of replacement equipment that had already been purchased. The equipment needing

[2]In addition to the $13.2 million, DOE received about $125 million in fiscal year 2000 supplemental funding for other laboratory activities, such as controlling erosion, restoring utility services, providing emergency response, and carrying out replacement construction projects.

replacement included desktop and laptop computers, printers, cameras, office furniture, scientific equipment, and related supplies.

The laboratory, in general, purchases equipment using several procurement methods. Each method is intended to obtain goods and services at the lowest cost, taking into account the cost of procurement administration.[3] One such method is the laboratory's just-in-time subcontracting program. This program, according to laboratory officials, allows personnel to obtain products from prequalified suppliers at discounted prices, usually within 24 hours of order placement. Orders and payments are processed electronically, thereby eliminating the need for involvement from the procurement staff. Other procurement methods used by the laboratory include the purchase card program, wherein a credit card is used, and purchase orders. Through the purchase card program, laboratory personnel may order supplies and equipment through the Internet or other available sources of supply. Laboratory officials told us that the laboratory does not track the total cost of purchases of $25,000 or less made collectively through its just-in-time subcontracting program, purchase card program, and purchase orders. However, during fiscal year 2000, Los Alamos' procurement staff processed over $46 million in individual purchase orders of $25,000 or less for goods and services, including personal computers, printers, digital cameras, and related equipment and supplies.

The DOE Office of Inspector General has issued at least one report on computer acquisitions. Specifically, in 1997, the DOE Office of Inspector General performed an audit of desktop computer acquisitions at the Idaho National Engineering and Environmental Laboratory.[4] The Inspector General's report indicated that, in order to reduce costs, DOE's Idaho contractor had formally studied its desktop computer acquisition practices and estimated that establishing a mandatory performance standard for computers would result in millions of dollars in savings per year.[5] On the basis of this study, DOE's Idaho contractor established a mandatory

[3]Los Alamos officials indicated that DOE acquisitions regulations require that DOE and its contractor obtain products at fair and reasonable pricing.

[4]*Audit of Desktop Computer Acquisitions at the Idaho National Engineering and Environmental Laboratory.*

[5]Desktop Computing Hardware Standardization Recommendation Report for the Idaho National Engineering Laboratory (Generated by Shain Byington, Configuration Management, Apr. 28, 1995).

computer performance standard at the site. The Inspector General reported that DOE's Idaho contractor could further improve its computer acquisition practices by using alternative supply sources, such as GSA, Small Business Administration contracts, or other desktop computer vendors. We found no similar DOE reviews regarding the acquisition of laptop computers, computer printers, or digital cameras for other DOE sites.

Expanding Possible Supply Sources for Equipment Purchases

The Los Alamos contractor probably could have saved money by expanding its possible supply sources. Our review showed that Los Alamos paid nearly the full retail price or more for many of the items. If Los Alamos had used more supply sources, it could have saved about 25 percent on certain items. Supply sources that could have been used include GSA and more suppliers that advertise over the Internet. Recent literature suggests that using the Internet to expand supply sources and compare prices can produce savings. Los Alamos officials indicated that the laboratory has been using the Internet but acknowledged that more enhancements in Internet procurement were possible.

Los Alamos Paid Nearly the Full Retail Price or More for Many of the Items

Because of the difficulty in getting detailed price and product information for the time period the purchases were made, we reviewed only 17 items purchased by the laboratory from May through July 2000 (see app. I). We determined the manufacturer's suggested retail price (retail price) for 12 of the items: 5 desktop computers, 1 laptop computer, 4 printers, and 2 digital cameras.[6] Of the 12 items, Los Alamos received discounts from the suppliers it used on only 5. In five cases, Los Alamos paid nearly the retail price for the items. In two cases, Los Alamos paid more than the retail price.

Using More Supply Sources Could Have Saved Money on Certain Items

In addition to comparing Los Alamos' purchase prices with retail prices, we also identified individual suppliers that could have provided certain of the items at a cost below that paid by Los Alamos. For example, Los Alamos could have saved about 25 percent in some cases if it had used other sources. Los Alamos purchased the 17 items from three local New

[6]For two of the items, the manufacturer provided Los Alamos and us conflicting information regarding the suggested retail price. On the remaining three items, suggested retail price information was not readily available.

Mexico vendors (one of which was a just-in-time contractor), one Internet vendor, and one computer manufacturer. The laboratory did not attempt to purchase the equipment items through GSA's Internet shopping site[7] or from other vendors that advertise their equipment over the Internet. Laboratory officials told us that, for the items reviewed, they felt most comfortable dealing with companies they had done business with in the past.

Because historical prices for computer and electronic equipment are not readily available, it was difficult to determine what Los Alamos could have paid for all of the 17 items we reviewed if it had used other vendors. We were able, however, to develop price comparisons for 4 of the 17 items: 3 printers and 1 digital camera. The total Los Alamos purchase price for the four items was $2,677, but these items would have cost $2,000 if purchased at that same time from GSA or from suppliers that advertise over the Internet, a savings of 25 percent. Although this sample is small, it shows that expanding supply sources could save money. In commenting on this information, Los Alamos officials said that the most expensive of the four items, a digital camera costing about $1,300 and purchased 8 days after the laboratory reopened, was needed immediately to document the fire damage and was purchased from a local vendor at a discounted price. However, we found that this camera could have been purchased directly from the manufacturer at any time after the fire for about $974 and received within 2 days with no shipping cost.

Internet Usage Can Expand Supply Sources and Produce Savings

Recent literature suggests that using the Internet to expand supply sources and compare prices can produce savings. For example, according to an article in the November 2000 issue of *Public Management*,[8] Internet procurement offers a significant opportunity to cut costs, increase organizational effectiveness, and improve customer service. Internet procurement, as described in the article, allows agencies to search for products and services from available suppliers and determine best prices,

[7]GSA's Internet shopping site is called "GSA Advantage!" According to a GSA handbook on the site, GSA Advantage! gives the user access to over a million commercial products and services available from GSA at the lowest possible prices. DOE and its contractors are authorized to use this site.

[8]Kenneth Mitchell, "Instituting E-procurement in the Public Sector," *Public Management* (Nov. 2000).

product availability, and shipping costs.[9] Although Los Alamos used the Internet to make many of its purchases, it did not use it to compare prices from available suppliers.

Officials of the laboratory said it has been using the Internet but acknowledged that more enhancements in Internet procurement were possible. Los Alamos contracting officials further said that their contract with DOE encourages but does not require using GSA to purchase equipment and that they did not consider using GSA for their replacement purchases. One Los Alamos procurement assistant who was responsible for procuring many of the equipment items included in our review indicated that she was not aware that GSA had an online shopping site. In response to our review, Los Alamos officials said the laboratory would give greater consideration to using GSA for its future equipment purchases. Specifically, these officials indicated that people who use purchase cards now receive training on how to use GSA Advantage! and will be encouraged to use GSA as an alternative to the laboratory's just-in-time program when appropriate.

Establishing Mandatory Performance Standards for Equipment Purchases

The Los Alamos contractor could save money by establishing mandatory performance standards for computer and computer-related equipment. DOE's contractor at the Department's Idaho laboratory reported that mandatory standards for computers resulted in cost savings at that laboratory. Neither Idaho nor Los Alamos has developed performance standards for computer printers, digital cameras, or other related equipment. However, consideration of such standards could provide additional opportunities for cost savings.

According to the Office of Inspector General's report on computer acquisitions at DOE's Idaho laboratory, the contractor there determined that millions of dollars in cost savings were possible if mandatory performance standards for purchasing such equipment were implemented. The computer performance standards in question refer to such things as the speed of the microprocessor, the size of the random access memory, and the size of the hard drive. Before October 1994, DOE's Idaho

[9]The article's author told us that Internet procurement allows agencies to expand supply sources, compare prices, and thereby obtain better prices and better deals. He also said that simply changing procurement practices from a paper-based operation to one whereby goods and services are ordered electronically will produce only marginal savings.

laboratory had no sitewide standard to govern the acquisition of desktop computer systems.

To address this issue, the laboratory contractor formed a working group consisting of representatives from all laboratory departments to study the situation. The working group developed a specific computer standard and recommended that it be established laboratorywide. Anticipated benefits included, for example, lower computer support costs and fewer training expenses. The laboratory contractor required all departments to comply with the standard. The contractor also adopted and implemented a policy that stipulates, in part, that only the contractor's information resources management director can approve deviations from the standard. Because DOE's Idaho contractor reported cost savings at that laboratory, using mandatory performance standards may represent a best practice that could be used by Los Alamos.

At Los Alamos, the contractor has developed minimum voluntary performance standards for its desktop and laptop computer acquisitions, but no maximum standards. Also, unlike Idaho, Los Alamos has no requirement that purchases above the standard receive formal management review and approval. According to Los Alamos contracting officials, whenever an employee requests a new computer system, that request is reviewed by a supervisory official, but the review is not formally documented.

Of the 17 equipment items we reviewed, 9 were desktop or laptop computers. All nine computers had performance capabilities that exceeded Los Alamos' minimum voluntary standards. For example, one voluntary standard for laptop computers is having a hard drive of 6.4 gigabytes.[10] All three laptop computers in our sample had hard drives of 12 gigabytes or more. Because there is no requirement to document instances in which capabilities exceed Los Alamos' voluntary minimum standards, we could not determine if the enhanced performance capabilities and extra cost associated with these laptop computers were justified.

Neither Idaho nor Los Alamos has developed performance standards for computer printers, digital cameras, or other related equipment. However,

[10]This standard was in effect at Los Alamos from September 1999 until September 2000 and covered the period during which the replacement equipment we reviewed was purchased. In September 2000, Los Alamos revised its standard to allow the acquisition of laptop computers with 10 gigabytes of hard drive.

on the basis of our review, such standards may be beneficial. For example, one equipment item we reviewed was a printer for which Los Alamos paid more than $1,400. Because of its unique capabilities, such a printer is normally used to meet the printing needs of a group of individuals connected to the same network server. In this case, however, the printer was being used primarily by one technical staff member and one part-time contractor who was in the office about one-third of the time. Neither individual needed a printer with unique capabilities. Other technical staff members we interviewed had printers for their personal use with lesser speed capabilities that cost between $280 and $700. In addition, we noted that the clarity and resolution of the $700 printer were similar to those of the $1,400 printer, but that the $700 printer had less memory. Printer memory, however, is an issue only when a large number of employees are queuing up for printing simultaneously.

Standardizing the Brands and Models of Computer and Computer-Related Equipment

The Los Alamos contractor could save money if it increased its use of a standard brand of computer and computer-related equipment. DOE's contractor at its Idaho laboratory determined that it could achieve considerable cost savings by limiting the various brands and models of desktop computers it purchased. Because of these reported cost savings, such limitations may be a best practice that could be used by Los Alamos. In contrast to Idaho, Los Alamos generally allows various brands and models of the same equipment to be purchased.

Before 1995, according to a report by DOE's contractor at its Idaho laboratory, that laboratory allowed many different computer systems to be purchased. The contractor's report indicated that this had created a range of problems: higher costs for maintenance, support, and training; difficulties in communicating through electronic messaging and using shared files; and problems in operating among work platforms and programs. Therefore, when Idaho established its standard for desktop computers, the contractor took the standard one step further and charged its procurement division with selecting a computer model that, on the basis of cost, reliability, serviceability, and other factors, would be in compliance with the standard. A cost-benefit analysis showed that cost savings ranging from $5 million to $10 million could be achieved over 10 years if the proposed standard was implemented. Subsequently, the procurement division awarded a contract to a single vendor to provide one specific brand of network and laptop computers and one specific brand of desktop computers.

At Los Alamos, in general, no similar limitations on desktop and laptop computer acquisitions exist. As a result, the contractor can purchase different brands and models of computers. For instance, the six desktop computers we reviewed were all different brands or models, and the three laptop computers were all different brands. These computers can also vary in price. For example, one replacement desktop computer cost about $2,900, while a different brand computer with enhanced capabilities cost about $2,600. According to Los Alamos contracting officials, the laboratory's employees had different brands and models of equipment before the fire. The items purchased were intended to be nearly identical replacements for the ones that had been destroyed by the fire. Los Alamos officials also told us that uniformity in computers across the entire laboratory would not meet the needs of the diverse applications and functions involved in experimental work. These officials indicated, however, that a certain number of the laboratory's more than 40 organizations have begun using a standard brand of computer to meet their specific requirements.

We determined that two Los Alamos divisions—Business Operations and Facility and Waste Operations—-have begun using a standard brand of computers and it has dramatically reduced support costs.[11] However, Los Alamos has not formally evaluated the feasibility of adopting this approach for more of its organizations.

Conclusions

While the scope of our review was limited, it raised the possibility that significant savings could be realized at Los Alamos by adopting revised procurement practices. If Los Alamos expanded its use of the Internet and, thereby, considered a broader spectrum of supply sources, including GSA, significant savings could be possible. Additional savings might also be possible if Los Alamos adopted the best practices being reported at Idaho. For example, if Los Alamos established mandatory performance standards for computer and computer-related equipment purchases, savings could probably be realized by avoiding purchasing higher-priced equipment that exceeds the needed capabilities. Furthermore, if Los Alamos limited the number of brands and models of the same equipment it purchased as at Idaho, savings could be realized from volume discounts associated with

[11]According to the Los Alamos group leader for desktop computer support, about one-third of computer support is presently done in-house. Los Alamos also uses outside contractors to provide computer support on an as-needed basis.

making multiple purchases of the same equipment item and from lower support costs. DOE's Idaho contractor reported that these practices have or likely will result in cost savings.

Recommendations for Executive Action

To improve the economy of equipment purchases at the Los Alamos National Laboratory, we recommend that you direct the contractor at Los Alamos to

- develop policies and procedures that encourage greater consideration of additional supply sources, including GSA and suppliers that advertise over the Internet;
- establish, to the extent practicable, mandatory performance standards for computer and computer-related equipment; and
- evaluate, in light of the reported savings at two Los Alamos divisions, the feasibility of having more of its organizations use a standard brand of computer and computer-related equipment.

Agency Comments

We provided a draft copy of this report to DOE for its review and comment. DOE stated that the overall finding of potential cost saving opportunities and the three associated recommendations contained in the report merit additional management attention. DOE indicated that it was directing Los Alamos to undertake specific actions in response to each of the recommendations. While generally agreeing with our recommendations, DOE pointed out that most of the procurements in question were made during a regional disaster, and that DOE places a high value on supporting regional socioeconomic development. In addition, DOE stressed in its comments that best value includes aspects other than lowest possible advertised cost. Further, DOE indicated that mandatory performance standards for computer and computer-related equipment could potentially affect programmatic or mission requirements.

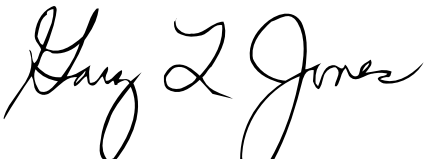
We believe that adopting our recommendations will not adversely affect DOE's ability to purchase equipment during an emergency, promote regional development, or achieve the best value. We also believe that mandatory performance standards for computer and computer-related equipment should be flexible enough to allow exceptions, but that those exceptions should be formally reviewed. DOE's complete comments are presented in appendix III.

We performed our work at DOE's headquarters and Los Alamos from August 2000 through March 2001 in accordance with generally accepted government auditing standards. Additional information on the scope and methodology of our review is presented in appendix II.

We are sending copies of this report to interested congressional committees and subcommittees and to the Director, Office of Management and Budget. We will also make copies available to others on request.

Please call me at (202) 512-3841 if you or your staff have questions about this report. W. Farrell Fenzel and Robert J. Baney also made key contributions to this report.

Sincerely yours,



(Ms.) Gary L. Jones
Director, Natural Resources
and Environment

Appendix I: Los Alamos National Laboratory Equipment Price Comparison

Item	Los Alamos price	Retail price	GSA or Internet lowest price
Computers/desktops			
Apple (G3/400Mhz/64MB/10GB)	$1,294	$1,299	[a]
Apple (G4/450Mhz/128MB/20GB)	2,899	2,999	[a]
Apple (G4/500Mhz/256MB/ 27GB)	3,494	3,499	[a]
Dell (Pentium III/866Mhz/128MB/20.4GB)	2,635	2,785	[a]
Dell (Pentium III/733Mhz/256MB/20GB)	2,843	[a]	[a]
Hewlett-Packard (Pentium III/733Mhz/128MB/9.1GB)	2,579	2,746	[a]
Computers/laptops			
Apple (G3/500Mhz/128MB/12GB)	3,584	3,599	[a]
Dell (Pentium III/600Mhz/256MB/18GB)	4,092	[a]	[a]
Micron (Pentium III/500Mhz/128MB/12GB)	3,263	[a]	[a]
Printers			
Epson 900G Personal Color Inkjet (10ppm color, 12ppm black)	400	429	[a]
Hewlett-Packard Personal Color Inkjet (8.5ppm color, 11ppm black)	279	[a]	$236
Hewlett-Packard Personal Color Inkjet (10ppm color, 12ppm black)	399	[a]	280
Hewlett-Packard Workgroup Color Inkjet (10ppm color, 12ppm black)	700	589	510
Hewlett-Packard Workgroup Black & White Laserjet (10ppm)	700	859	[a]
Hewlett-Packard Workgroup Black & White Laserjet (17ppm)	1,430	1,927	[a]
Cameras			
Olympus Digital (1280 x 1024 maximum resolution, 1.40 megapixels)	1,081	999	[a]
Olympus Digital (1712 x 1368 maximum resolution, 2.50 megapixels)	1,299	1,299	974

Notes: G3, G4, and Pentium are types of microprocessors installed in computers. Mhz is the abbreviation for megahertz, a unit used to measure the speed of a computer processor. MB, or megabyte, is a unit used to measure the information storage capacity of the computer's random access memory. GB, or gigabyte, is a unit used to measure the information storage capacity of a computer's hard drive. PPM stands for pages per minute. Megapixels refers to the number of dots per square inch.

[a]Price was not available.

Source: Los Alamos prices were obtained from officials at the laboratory.

Appendix II: Scope and Methodology

To determine whether supplemental funding was being spent in the most economical fashion, we randomly selected 17 items of replacement equipment that had already been purchased for further review. Of the 17 selected items, 6 were different brands or models of desktop computers, 3 were different brands of laptop computers, 6 were different brands or models of printers, and 2 were different models of digital cameras. For each item, we requested a report from Los Alamos' property management system regarding the item and the item's purchase invoice. We used this information to determine the performance specifications, procurement source, and price paid for each item. We also, to the extent possible, examined each item and interviewed the employee to whom each item had been assigned. Through this process, we were able to determine the exact configuration of each item, including its peripherals and options. Further, we independently attempted to determine if each item could have been procured at a lower price using a supply source other than that used by the laboratory, such as GSA's Federal Supply Schedule and private companies that offer their equipment for sale over the Internet.

We also obtained from Los Alamos contracting officials information on the laboratory's requirements regarding equipment purchases. This information included a copy of the current DOE contract with the University of California, applicable DOE acquisition regulations, and laboratory policies and procedures pertaining to purchasing computer and computer-related equipment and using GSA for equipment purchases.

In addition, we searched for DOE reports on the procurement of computer equipment by DOE contractors and found a 1997 Office of Inspector General audit on desktop acquisitions at the Idaho National Engineering and Environmental Laboratory. We found no other DOE reports on the acquisition of computers or computer-related equipment.

Finally, we researched available literature for information on the advantages and disadvantages of Internet procurement. We performed our work from August 2000 to March 2001 in accordance with generally accepted government auditing standards.

Appendix III: Comments From the Department of Energy

Department of Energy
National Nuclear Security Administration
Washington, DC 20585

May 16, 2001

Ms. Gary L. Jones
Director
Natural Resources and Environment
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Ms Jones:

The National Nuclear Security Administration's Office of Defense Programs (NNSA/DP) appreciates the opportunity to review and comment on the General Accounting Office (GAO) draft report entitled: "Opportunities Exist to Improve Los Alamos' Equipment Purchasing Practices" (GAO-01-426 DRAFT). We conclude that the overall finding of potential cost saving opportunities and the three associated recommendations merit additional management attention.

We note, and the draft report recognizes, that this was a limited scope review and few direct cost comparisons could be made. Furthermore, most of the procurements studied were made in a time of abnormal operations resulting from a regional disaster. We also need to emphasize that we place a high value on supporting regional socioeconomic development. Finally, the report does not explore the negative economic and functional aspects of seeking the lowest possible costs. We maintain that best value includes aspects other than lowest possible advertised cost. We will factor these considerations into our implementation of the recommendations of the report.

The enclosure to this letter provides a detailed response to the recommendations contained in the subject draft report. We appreciate your efforts to help improve procurement practices at the Los Alamos National Laboratory, and we will disseminate the final report to all NNSA sites.

Sincerely,

Dennis Miotla, Director
Office of Facilities Management and
ES&H Support
Defense Programs

Enclosure

cc:
L. Raab, AFSC, AL
Robert R. Tripp Gibson III, AL
Jon Mathis, CR-2
Linda Thomas, DP-442.

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Department of Energy
Position on General Accounting Office Draft Report Recommendations
Opportunities Exist to Improve the Los Alamos National Laboratory's (LANL) Equipment Purchasing Practices

Recommendation No. 1

Develop policies and procedures that encourage greater consideration of additional supply sources including GSA and suppliers that advertise over the Internet.

Defense Programs (DP)

Partially Concur. DP concurs that LANL should develop policies and procedures that encourage greater consideration of additional supply sources including GSA and suppliers that advertise over the Internet that are not counterproductive to achieving regional socioeconomic goals. DP recognizes the importance of procuring small dollar value items from local small businesses within the Northern New Mexico community to support socioeconomic goals. DP believes that LANL was correct in procuring the subject electronic equipment from local small businesses during the period of time surrounding the Cerro Grande Fire based on timeliness requirements and devastation to the local community. It should be noted that the equipment reviewed during the course of this audit was purchased during a state of emergency. DP/Albuquerque Operations Office (AL) will direct LANL to review their current policies and procedures to determine if overall procurement costs can be reduced while meeting regional purchasing and socioeconomic subcontracting goals. DP/AL will require LANL to submit their findings by September 30, 2001.

Recommendation No. 2

Establish, to the extent practicable, mandatory performance standards for computer and computer-related equipment.

DP's Position

Partially concur. DP concurs that LANL should develop, to the extent practicable, mandatory performance standards for computer and computer-related equipment. However, DP is concerned that mandatory performance standards could potentially impact programmatic or mission requirements. Performance standards may include speed of the microprocessor, size of the random access memory, and size of the hard drive. DP/AL will direct LANL to study the feasibility of developing and implementing performance standards without impacting programmatic or mission requirements.

Recommendation No. 3

In light of the reported savings at two Los Alamos divisions, evaluate the feasibility of having more of its organizations use a standard brand of computer and computer-related equipment.

DP's Position

Concur: DP/AL concurs and will direct LANL to evaluate the feasibility of having more of its organizations use a standard brand and model of computer and computer-related equipment for laboratory uses so long as programmatic and mission requirements are not adversely affected.

Finding:

Partially Concur: DP concurs that some cost savings could be realized if LANL (1) develops and implements revised policies and procedures for considering a broader range of supply sources, including GSA vendors and suppliers that advertise over the Internet, (2) establishes mandatory performance standards, to the extent practicable, for computer and computer-related equipment, and (3) evaluates the feasibility of having more of its organizations use a standard brand and model of computer and computer-related equipment for laboratory uses within its programmatic or mission requirements.

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